

reasonable.

Insurance costs applicable to transportation vehicles will be allowable to the extent of equivalent vehicle units permissible under the principles.

Mortgage insurance premiums are generally not an allowable cost. However, where the principal mortgagee specifically requires that the insurance be obtained as a prerequisite to completing financing arrangements and the insurance agreement stipulates that total proceeds must apply to the mortgage balance, then the premiums shall be reimbursable. The proceeds so applied will be construed as allowed depreciation taken for reimbursement purposes.

## **START-UP COSTS**

"Start-up costs" are defined for the Rhode Island Medicaid Program as those costs incurred for the operation and maintenance of a facility for a period not to exceed six weeks prior to the admission of the first patient. Such costs would include administration and nursing salaries, heat, gas, electricity, insurance, employee training costs (excluding nurse aide training and competency evaluation expenditures), repairs and maintenance and any other allowable costs incident to the operation of the facility, but not interest, depreciation and real estate and personal property taxes. Inasmuch as start-up costs

TN# 96-007    Supersedes TN# 93-013

Effective date 7/1/96

Approval Date: February 5, 1999

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would relate to services to patients subsequently admitted to the facility, they are considered to be deferred charges and amortization of these charges will be allowed over a period of 60 months.

### **COST NOT RELATED TO PATIENT CARE**

The following are examples of, but not limited to, items which are not recognized for cost reimbursement purposes:

1. personal expenses,
2. items and services for which there is not legal obligation to pay,
3. business expense not related to patient care,
4. physician fees, prescription drugs and medications, as they are covered by

means of a separate program,

5. reimbursed expenses,
6. costs of meals sold to visitors and employees,
7. costs of drugs, items and supplies sold to other patients,
8. cost of operation of a gift shop intended to produce a profit. Where expenses

cannot be specifically identified the revenue derived will be used to reduce the total

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Effective date 7/1/96

Approval Date: February 5, 1999

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operating expenses of the facility.

9. expenses which exceed amounts under the prudent buyer concept,

10. accrued expenses not paid within 90 calendar days after close of the reporting period, except for bankruptcy proceedings, or at time of the audit, examples are but not limited to:

a. professional services including attorney and accounting fees,

b. unpaid compensation of employees, officers and directors owning stock in a closely-held corporation,

c. fringe benefits,

d. consultant fees,

e. suppliers and vendors,

f. trade association dues,

Any accrued expenses so disallowed will, however, be recognized when eventually paid by adjusting the costs of the year in which the expense was incurred.

11. State and Federal income taxes,

12. directory and display advertising or other means of advertising,

13. bad debts,

14. management fees,

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- 15. expenses attributed to anti union activities as specified in H.I.M.-15,
- 16. excessive purchases of supplies when compared to previous years and years subsequent to base years,
- 17. employment agency fees/agency contract for purpose of recruitment,
- 18. costs of beepers,
- 19. costs of telephone in motor vehicles, and,
- 20. costs of nurse aide training and competency evaluations. The inclusion of cost such as those set forth in 1-20 above, which are not related to patient care may constitute a violation of General Laws Section 40-8.2-4, as well as other provisions of State and Federal law and may result in criminal and civil sanctions and possible exclusion from participation in the Medicaid Program.

The State reserves the right to make determinations of admissible and/or inadmissible costs in areas not specifically covered in the principles.

## **CONSTRUCTION COSTS**

### **GENERAL**

The Department of Health defines a construction project as "the total estimated cost of all elements or components of a functional facility submitted for cost reimbursement

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Effective date 7/1/96

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including equipment (whether purchased or leased) for providing services to nursing or personal care home patients, personnel, or the visiting public."

Any construction of a substantial nature is reviewed by the Health Services Council and must be approved by the licensing agency, the Department of Health.

### **COST BASIS FOR MEDICAID REIMBURSEMENT PURPOSES**

The basis of allowable depreciation shall be the actual historical costs but not in excess of the total project cost approved by the Department of Health.

### **VERIFICATION OF COSTS**

Within a reasonable time after the completion of a project an audit will be conducted to determine whether the cost of construction is fairly presented and whether the project is in general compliance with the terms approved by the licensing agency.

### **TRANSACTIONS BETWEEN AFFILIATED PARTIES**

Where the contractor and provider are affiliated through common ownership, no profit add-on is permitted for cost reimbursement purposes.

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## SERVICE AND AFFILIATED ORGANIZATIONS

### GENERAL

Any company or business entity which provides products and/or services to an affiliated nursing home or group of homes, where common ownership exists, must be reported to the Rate Setting Unit in order to meet reimbursement requirements.

### REPORTING REQUIREMENTS

The report form must be filed for approval. Data required will include but not limited to:

- a. explanation of the need for such an organization,
- b. ownership interest and legal form of organization,
- c. type of product or services to be rendered,
- d. names of all affiliated facilities to be serviced.

Requests for approval must be filed prior to the end of the calendar year in which the service and/or affiliated organization commences operations. This will allow for a determination of whether or not charges from the related service company to the nursing facility will be allowed.

The State requires in addition to the BM-64, the following:

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- a. financial statements of the related service company,
- b. tax returns if above statements not available.

If centralized services such as accounting, purchasing, administration, etc., are involved, complete details regarding the allocation of charges must be provided.

Cost applicable to services, facilities and supplies furnished to a provider by organizations related to the provided by common ownership or control shall not exceed the lower of the cost to the related organization or the price of comparable services, facilities, or supplies purchased elsewhere. Costs include those actually incurred to which may be added reasonable handling and administrative charges. Profit add-on in the form of markups or by other means is not permitted nor acceptable for reimbursement under the Rhode Island Medical Assistance Program, Title XIX, Medicaid.

### **HOME OFFICE CHARGES**

Long Term Care facilities sometimes operate through a central home office resulting in home office charges. Cost-related expenses may be reimbursable providing that said central home office is physically located within the State of Rhode Island and if they can satisfy the reasonable cost-related concept previously described and if they can demonstrate and document that central management, purchasing and accounting services were uniformly performed for all facilities. Home office cost-related expenses, if the above

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is satisfied, will be pro-rated to each facility and enterprise for which services are being provided. The central home office must prepare and file with the Rate Setting Unit a cost report annually, in an approved format showing line-cost and allocation to each facility or enterprise. Additionally each enterprise for which services are provided must be fully disclosed.

A central home office established on or after January 1, 1985 must obtain prior written approval from the Rate Setting Unit in order to qualify to have its allocated costs recognized for reimbursement.

#### **IN-STATE CENTRAL/HOME OFFICE**

Cost will be allocated and reimbursed through the Management Related Expenses cost center and All Other Expenses cost center.

#### **OUT-OF-STATE CENTRAL/HOME OFFICE**

Charges will be recognized to the extent of the lesser of reported reasonable costs of central home office plus costs in Account No.'s 421-Other Administrative Salaries, No. 435-Accounting and Auditing Fees or the average allowable amount for facilities of like size and licensure for Account No.'s 421-Other Administrative Salaries, No 435-Computerized

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Payroll and Data Processing Charges and No. 436-Accounting and Auditing Fees. The acceptable amount will be allowed in the Management Related Expenses cost center.

## **TRANSACTIONS AFFECTING ALLOWABLE COST OF PATIENT CARE**

### **TEMPORARY RATES FOR NEWLY ACQUIRED OR CONSTRUCTED FACILITIES**

Newly constructed facilities and facilities that change ownership will be allowed a temporary reimbursement rate after supplying the Chief Long Term Care Reimbursement sufficient cost data or other information necessary to fairly calculate interim per diem rates, subject to the maximum cost center ceilings as established in each of the seven cost center categories. Upon completion of a six-month period from time of licensure, the facility will complete and file with the Chief Long Term Care Reimbursement for Nursing Facilities, a cost report form BM-64 covering the first six months of operations. Based upon the analysis of the report and Principles of Reimbursement in effect at the time of licensure, a new rate may be calculated, subject to the maximum cost center ceilings as established, and made retroactive to the date of licensure.

Proforma cost data and BM-64 cost reports covering the first six month of operations submitted by newly acquired or constructed facilities will not be considered in the array of

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cost information for the determination of the maximum allowable base in each of the cost center category.

## **CHANGES IN BED CAPACITY**

Facilities in which the bed capacity is either substantially increased or decreased will be re-evaluated insofar as the reimbursement rate, and such change in rate, if at all, will be made retroactive to the date in which such change in bed capacity was authorized by the licensing authority.

## **EXCESS BED CAPACITY**

Per diem rates will be based upon the actual percentage occupancy of the facility's total licensed bed capacity in the base year or 98 percent of the statewide average occupancy rate in the prior calendar year, whichever is greater. For those facilities being licensed for only a portion of their potential bed complement, the 98 percent of the statewide average occupancy rate of the prior calendar year will be based on the available bed days of the portion licensed. However, expenses relating to the physical plant of such facilities such as, but not limited to the following, interest, depreciation and real estate and personal property taxes will be allowed only as they apply to the licensed portion on a per diem predicated upon actual occupancy or 98 percent of the statewide average occupancy

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Effective date 7/1/96

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